

University of Mississippi
eGrove

Statements on Auditing Standards

American Institute of Certified Public Accountants
(AICPA) Historical Collection

1975

Effect of an internal audit function on the scope of the independent auditor's examination; Statement on auditing standards, 009

American Institute of Certified Public Accountants. Auditing Standards Executive Committee

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_sas

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Auditing Standards Executive Committee, "Effect of an internal audit function on the scope of the independent auditor's examination; Statement on auditing standards, 009" (1975). *Statements on Auditing Standards*. 100.

https://egrove.olemiss.edu/aicpa_sas/100

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements on Auditing Standards by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

The Effect of an Internal Audit Function on the Scope of the Independent Auditor's Examination

*(Supersedes Statement on Auditing Standards No. 1,
section 320.74)*

1. The work of internal auditors cannot be substituted for the work of the independent auditor; however, the independent auditor should consider the procedures, if any, performed by internal auditors in determining the nature, timing, and extent of his own auditing procedures. This Statement provides guidance on the factors that affect an independent auditor's consideration of the work of internal auditors in an examination made in accordance with generally accepted auditing standards.

2. Internal auditors often perform a number of services for management, including, but not limited to, studying and evaluating internal accounting control,¹ reviewing operating practices to promote increased efficiency and economy, and making special inquiries at management's direction. This Statement is applicable to the inde-

¹ See SAS No. 1, section 320.50, for an explanation of the two phases of the study of internal accounting control.

pendent auditor's consideration, in making his study and evaluation of internal accounting control, of the work performed by internal auditors. The Statement applies whether the work performed by internal auditors is part of their normal duties or is performed at the request of the independent auditor. It also applies to situations in which internal auditors perform work directly for the independent auditor (see paragraph 10).

3. When internal auditors study and evaluate internal accounting control or perform substantive tests of the details of transactions and balances, they serve a special function. They are not part of internal accounting control in the same manner as would be an individual who verifies the mathematical accuracy of all invoices; instead, they act as a separate, higher level of control to determine that the system is functioning effectively. This Statement is not applicable to personnel with the title "internal auditor" who do not perform such a function. Conversely, personnel with other titles who perform such a function should be considered internal auditors for purposes of this Statement.

4. The independent auditor should acquire an understanding of the internal audit function as it relates to his study and evaluation of internal accounting control. The work performed by internal auditors may be a factor in determining the nature, timing, and extent of the independent auditor's procedures. If the independent auditor decides that the work performed by internal auditors may have a bearing on his own procedures, he should consider the competence and objectivity of internal auditors and evaluate their work.

Reviewing the Competence and Objectivity of Internal Auditors

5. Section 320.35 of SAS No. 1, regarding the role of client personnel who perform accounting and related work with respect to accounting control, states in part:

Reasonable assurance that the objectives of accounting control are achieved depends on the competence and integrity of personnel, the

independence of their assigned functions, and their understanding of the prescribed procedures.

6. When considering the competence of internal auditors, the independent auditor should inquire about the qualifications of the internal audit staff, including, for example, consideration of the client's practices for hiring, training, and supervising the internal audit staff.

7. When considering the objectivity of internal auditors, the independent auditor should consider the organizational level to which internal auditors report the results of their work and the organizational level to which they report administratively. This frequently is an indication of the extent of their ability to act independently of the individuals responsible for the functions being audited. One method for judging internal auditors' objectivity is to review the recommendations made in their reports.

Evaluating the Work of Internal Auditors

8. In evaluating the work of internal auditors, the independent auditor should examine, on a test basis, documentary evidence of the work performed by internal auditors and should consider such factors as whether the scope of the work is appropriate, audit programs are adequate, working papers adequately document work performed, conclusions reached are appropriate in the circumstances, and any reports prepared are consistent with the results of the work performed. The independent auditor should also perform tests of some of the work of internal auditors. The extent of these tests will vary depending on the circumstances, including the type of transactions and their materiality. These tests may be accomplished by either (a) examining some of the transactions or balances that internal auditors examined or (b) examining similar transactions or balances but not those actually examined by internal auditors. The independent auditor should compare the results of his tests with the results of the internal auditors' work in reaching conclusions on that work.

Arrangements With Internal Auditors

9. When the work of internal auditors is expected to be significant to the independent auditor's study and evaluation of internal accounting control, the independent auditor should, at the outset of the engagement, inform internal auditors of the reports and working papers he will need. He should also consult with internal auditors concerning work they are performing, since work not yet completed may also have a bearing on his examination. Also, work done by internal auditors will frequently be more useful to the independent auditor if plans for the work are discussed in advance.

Using Internal Auditors to Provide Direct Assistance to the Independent Auditor

10. The independent auditor may make use of internal auditors to provide direct assistance in performing an examination in accordance with generally accepted auditing standards. Internal auditors may assist in performing substantive tests or tests of compliance. When the independent auditor makes such use of internal auditors, he should consider their competence and objectivity and supervise and test their work to the extent appropriate in the circumstances.

Judgments on Audit Matters

11. When the independent auditor considers the work of internal auditors in determining the nature, timing, and extent of his own audit procedures or when internal auditors provide direct assistance in the performance of his work, judgments as to the effectiveness of internal accounting control, sufficiency of tests performed, materiality of transactions, and other matters affecting his report on the financial statements must be those of the independent auditor.

The Statement entitled "The Effect of an Internal Audit Function on the Scope of the Independent Auditor's Examination" was adopted by the assenting votes of nineteen members of the Committee. Messrs. Konkell and Ziegler dissented.

Mr. Konkel dissents to the issuance of this Statement because he believes that paragraph 10 could imply that the work of an internal auditor could be used as virtually a complete substitute for the work of an independent auditor's staff, without offering sufficient guidance as to the effect of such use on the scope of the independent auditor's examination. Mr. Konkel believes that when an independent auditor has properly limited his scope by using the work of an internal auditor he is relying on internal control rather than using their work as a substitute.

Mr. Ziegler dissents to the issuance of this Statement because he believes that it fails to provide substantive guidance as to the extent to which the independent auditor may make use of work performed by the internal auditor in determining the nature, timing, and extent of his own auditing procedures. He believes that the Statement should provide guidance as to when the work of the internal auditor might cease to be a supplement to and become a substitute for the work of the independent auditor. He also believes that paragraph 10 does not provide sufficient guidance as to the extent to which and under what circumstances the internal auditor may perform work directly for the independent auditor and the degree to which the independent auditor may rely thereon.

Auditing Standards Executive Committee (1974-1975)

| | |
|-------------------------------------|-------------------------------------|
| KENNETH P. JOHNSON, <i>Chairman</i> | HALDON G. ROBINSON |
| WILLIAM J. BADECKER | STAN ROSS |
| J. HERMAN BRASSEAU | DONALD L. SCANTLEBURY |
| WILLIAM C. DENT | EDWARD J. SILVERMAN |
| JAMES L. GOBLE | KENNETH I. SOLOMON |
| ROBERT A. HARDEN | JORDAN B. WOLF |
| JAMES I. KONKEL | DONALD R. ZIEGLER |
| EDWARD C. KREBS | |
| EDWIN M. LAMB | D. R. CARMICHAEL, <i>Director</i> |
| BLAINE C. LISK | <i>Auditing Standards</i> |
| ANTHONY P. MANFORTE | JOHN F. MULLARKEY, <i>Assistant</i> |
| LEROY E. MARTIN | <i>Director, Auditing Standards</i> |
| ROBERT L. MAY | MARY LYNN O'NEILL, <i>Manager,</i> |
| DAVID A. NELSON | <i>Auditing Standards</i> |

Note: *Statements on Auditing Standards are issued by the Auditing Standards Executive Committee, the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Ethics requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of generally accepted auditing standards, and requires that members be prepared to justify departures from such Statements.*